

March 9, 2015

Natural Gas Trends

Highlights

ExxonMobil sees US unconventional as growth key

ExxonMobil on Wednesday said a "significant" portion of its oil production from US shale is cost-competitive with other world crudes. CEO Rex Tillerson noted that efficiencies and improved technologies have driven down the costs of drilling. "I think the North American tight oil supply is more resilient than some think it is," Tillerson said at the company's investor day presentation. "I do look at the lessons learned from shale gas. People showed an enormous resilience [through low price periods]. That's why I think you'll see surprising resilience on the oil side."

Industry observers have noted how US shale gas production has continued to rise, even as prices plunged, as wells are increasingly cheaper to drill with fewer rigs. ExxonMobil subsidiary XTO Energy operates major US unconventional plays in North Dakota's Bakken, Texas' Permian Basin and Oklahoma's Ardmore and Marietta shales, totaling some 220,000 b/d of production. In all, ExxonMobil said it aims to add more than 150,000 b/d of net production from its US on-shore portfolio, accounting for much of the company's overall anticipated growth of more than 400,000 boe/d of working interest production capacity over the next two years.

"We have spent the last two years in appraisal mode," Tillerson said. "We want to know how do you get the most out of these rocks and resources in the most cost efficient way." He said the company expects drilling to increase in the Permian Basin, while drilling activity could "see some tapering" in the Bakken "because we've been so active and gotten so efficient with it." Ardmore drilling should remain in a "steady state," while the Marietta is in the early stages of development, he added.

Shale drilling costs drop

ExxonMobil Senior Vice President Jack Williams said shale drilling costs have come down 20%-25%, and two thirds of its rigs in the US have terms with less than 90-day cancellation options, providing the company with flexibility to adjust the market conditions. He characterized ExxonMobil's US shale resources as "very significant" and "high quality". "We could continue drilling at today's levels for another 20 years," Williams said. "In natural gas, our inventory is four to five times that amount." The company said it sees reduced spending upstream and more targeted "attractive" downstream and chemical investments this year, with total capex averaging less than \$34 billion per year from 2016 to 2017. "We are capturing savings in raw materials, service, and construction costs," Tillerson said in a statement. "The lower capital outlook also reflects actions we are taking to improve our set of opportunities while enhancing specific terms and conditions and optimizing development plans."

As recently as early last month, ExxonMobil signaled it would not deviate from its previously announced plan to spend just under \$37 billion this year despite low oil prices, saying at the time its investments were driven by its projections of growth in global energy demand. The company said in October it planned to keep capital spending near \$37 billion/year for the next few years as it aimed to reverse years of slipping output and hit a production target of 4.3 million barrels of oil equivalent/day by 2017.

Source: Platts Gas Daily

Data

- April 2015 Natural Gas Futures Contract (as of March 6), NYMEX at Henry Hub closed at \$2.839 per million British thermal units (MMBtu)
- April 2015 Light, Sweet Crude Oil Futures Contract WTI (as of March 6), closed at \$49.61 per U.S. oil barrel (Bbl.) or approximately \$8.55 per MMBtu

Last week: Texas cooler than normal last week

For the week beginning 3/1/15 and ending 3/7/15, heating degree days (HDD) were higher than normal (cooler) on average for the week and higher than normal (cooler) for the year to date for most Texas cities shown.

Source: www.cpc.ncep.noaa.gov

HEATING DEGREE DAYS (HDD)				
City or Region	Total HDD for week ending 3/7/15	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	201	57	3326	-6%
Austin	150	97	1862	25%
DFW	185	108	2220	5%
El Paso	91	12	1902	-15%
Houston	83	33	1401	2%
SAT	121	72	1435	0%
Texas**	133	67	1888	7%
U.S.**	201	45	3607	2%

* A minus (-) value is warmer than normal; a plus (+) value is cooler than normal. NOAA uses 65° Fahrenheit as the 'normal' basis from which HDDs are calculated. ** State and U.S. degree days are population-weighted by NOAA.

-999 = Normal Less Than 100 or Ratio Incalculable

Last week: U.S. natural gas storage at 1,710 Bcf

For the week ending 2/27/2015 working gas in storage decreased from 1,938 Bcf to 1,710 Bcf. This represents a decrease of 228 Bcf from the previous week. Stocks were 492 Bcf higher than last year at this time and 143 Bcf below the 5 year average of 1853 Bcf.

Source: <http://ir.eia.gov/ngs/ngs.html>

U.S. WORKING GAS IN STORAGE				
Region	Week ending 2/27/15	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	722	843	-121	-9.2%
West	355	371	-16	22.8%
Producing	633	724	-91	-1.9%
Lower 48 Total	1,710	1,938	-228	-1.5%

Lower 48 states, underground storage, units in billion cubic feet (Bcf)

March 9, 2015

more **Natural Gas Trends**

Last week: U.S. gas rig count down for the week

The gas rig count for the U.S. was down 12 for the week and down 77 when compared to twelve months ago. The total rig count for the U.S. was down 75 from last week and down 1,187 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

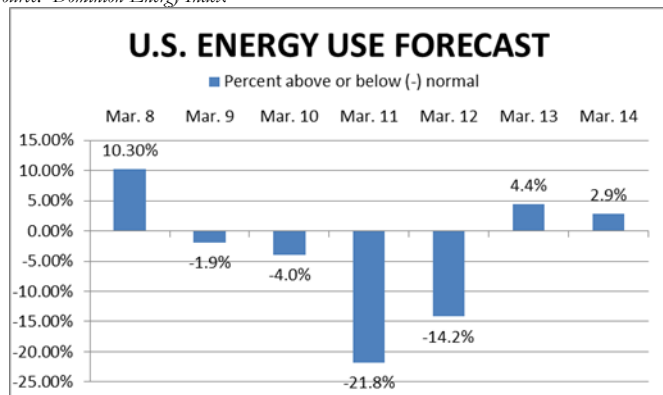
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 3/6/2015	+/- prior week	Year ago	+/- year ago
Texas	538	-32	864	-326
U.S. gas	268	-12	345	-77
U.S. oil	922	-64	1443	-521
U.S. total	1192	-75	2379	-1187
Canada	300	-30	587	-287

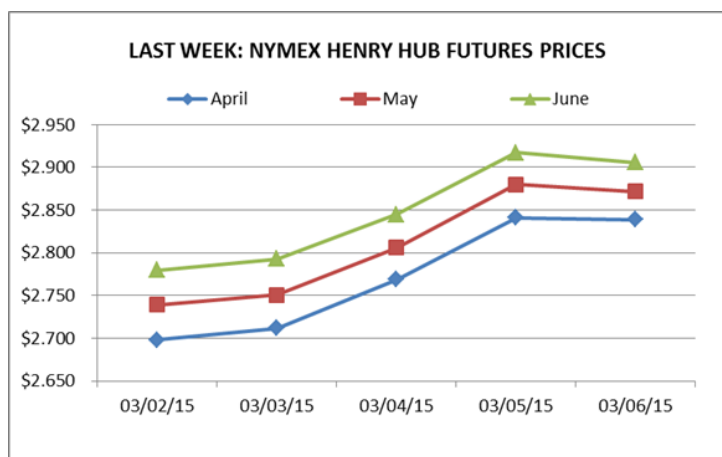
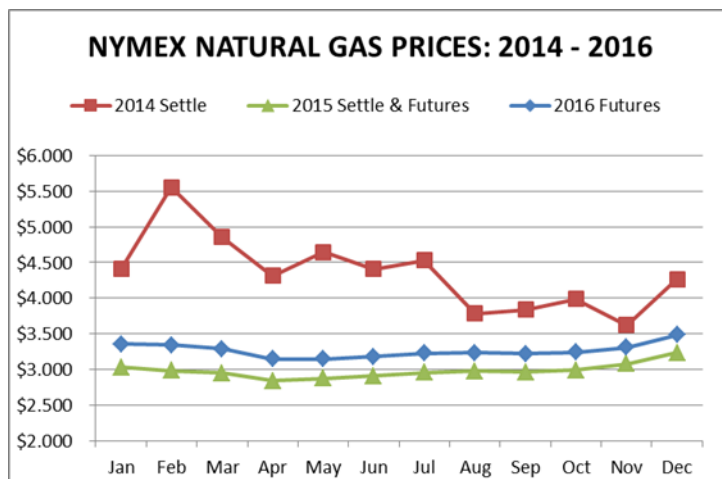
This week: U.S. energy varies this week

U.S. energy use is predicted to vary this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



2015 prices. Natural gas prices for 2015, shown below in green, are the NYMEX settlement prices for Jan.-Mar. and futures prices for the remainder of the year.



NATURAL GAS PRICE SUMMARY AS OF 3/9/2015

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US April futures				
NYMEX	\$2.839	\$0.105	-\$2.016	\$2.913